Chapter 3

Is Work the Best Antidote to Poverty?

Employment reduces considerably the poverty risk, but does not solve all problems. On average in the OECD area, 7% of individuals living in households with at least one worker are poor. And while in-work poverty is often related to insufficient work participation, resulting from very short part-time work or very short employment spells over the year, there are other important factors at work. In particular, poverty rates are higher for families with children. Thus, fighting in-work poverty requires implementing targeted policy responses. In this respect, social transfers play a key role, precisely because they can be targeted towards the most vulnerable households: on average in the OECD area, they reduce by almost half the rate of in-work poverty. Among these transfers, in-work benefit schemes can be particularly effective, if they are well conceived and combined with a binding minimum wage set – by law or collective agreements – to a moderate level. Conversely, since the risk of in-work poverty is much less related to hourly wage rates than it is with working time, employment duration or household composition, the minimum wage cannot constitute the main element of an effective strategy to alleviate in-work poverty.
Introduction

At the outset of the current economic downturn, a significant proportion of the working-age population consisted of individuals whose household income was below the poverty threshold. And many of them were living in a household where at least one person had a job, the so-called “working poor”. During the economic downturn, many more individuals of working age are likely to fall into poverty either because they will lose their job or work fewer hours.

Traditionally, when assessing labour market performance, the main focus has been on unemployment or employment rates. But the public debate has recently put an increasing emphasis on in-work poverty. For governments, the problems faced by the working poor and jobless people are two pieces of the same puzzle: how to secure for them a route towards economic self-sufficiency? From this perspective, the policy goal should be the same in both cases: creating more and better jobs. However, this is a particularly demanding objective since past experience suggests that more jobs do not necessarily mean better jobs. At the same time, governments also need to put in place a solid safety-net for those individuals with weak employment prospects, who may not succeed in finding a job that offers career prospects. With the ongoing severe economic downturn, these issues are becoming even more central.

This chapter first presents a brief overview of the poverty situation in the OECD countries (Section 1). In particular, it explores the link between labour market outcomes and poverty incidence among the working-age population, and then focuses on the working poor. These analyses are based on a relative concept of poverty: individuals whose household income does not support living conditions considered adequate in their country of residence are typically labelled as being in poverty, even if their physical subsistence needs can be met. On the policy side, the chapter provides an overview of what OECD countries do to alleviate in-work poverty (Section 2): in particular, it focuses on the minimum wage and social transfers, among which it highlights in-work benefit schemes. In the longer run, education and vocational training should also be part of the toolbox of policies to fight in-work poverty. However, such policy options fall beyond the scope of this chapter, which does not analyse the dynamic aspects of poverty.

Main findings

- The poverty rate among the working-age population varies greatly across OECD countries and is the main contributor to overall poverty headcounts. At 10% on average in the OECD area, the poverty rate among the working-age population is sizeable. It is particularly high in Mexico, Poland, Turkey and the United States, where it exceeds 16% of the working-age population, while it remains below 7% in the four Nordic countries, Austria, the Czech Republic and France. The risk of poverty is higher than the risk of unemployment among the population aged 15-64 in most OECD countries.
● Access to a job is a major factor limiting the poverty risk faced by households with a head of working age. In virtually all countries, the poverty rate among jobless households is more than double the rate observed among working households. In the present economic downturn, poverty is therefore likely to increase in the OECD area as worsening global economic conditions are associated with large job losses in most member countries. This is especially the case in countries such Australia, Canada, Ireland, Korea and the United States, where more than half of individuals living in jobless households are poor (against 37% on average in the OECD area).

● However, in-work poverty risk is significant almost everywhere. While employment reduces considerably the poverty risk, on average 7% of individuals living in households with at least one worker are poor in the OECD area. Consequently, the working poor account for more than 60% of all the poor of working age. This proportion increases to 80% in countries such as Greece, Iceland, Japan, Luxembourg, Mexico, Portugal and Turkey.

● For most of the working poor, underemployment is the major problem. The average intensity of work among the working poor differs sharply from that observed among the rest of the employed population. On average over the 21 European countries for which data are available, only slightly more than 20% of the working poor work full-time, full year-round and almost 70% of this group work six months or less during the year (in full-time equivalent months). By contrast, more than half of individuals living in a non-poor household work full-time over the full year.

● For families with children and low earnings potentials, even full-time employment may not fully secure economic self-sufficiency. On average, working full-time at the bottom of the wage ladder (i.e. at around 40% of the average wage) brings disposable incomes of two-earner couples with children to only 65% of the median income, while the incomes of lone parents in low-paid work remain at the poverty threshold or even below in most countries.

● Net social transfers play a key role in reducing poverty among the working-age population. On average, the rate of in-work poverty declines from 12% to 7% after net social transfers are taken into account (a 42% reduction). They also reduce substantially the poverty rate among jobless people from 84% to 38% (a 55% reduction). And overall, net social transfers cut the poverty rate almost by half among the working-age population. However, there are large differences across countries in the anti-poverty role of net social transfers. Consequently, the design of national transfer systems appears to be a key determinant of the OECD country ranking with respect to poverty rates.

● However, when taking up a full-time job, low-wage workers see a large proportion of their gross earnings consumed by social contributions, income taxes and reduced social benefits. For one-earner families, the so-called average effective tax rate varies on average from 70% to 80% of gross earnings (depending on household composition), benefits withdrawal being the key component of these high rates. And for couples with children, half of additional earnings are on average taxed away when the spouse takes up a full-time job. Here, the tax burden on labour incomes plays a dominant role, and for these families, a more progressive tax system would help to make full-time employment a more solid path towards economic self-sufficiency.

● In-work benefit schemes may constitute a valuable policy response to in-work poverty problems. Provided that they are well-targeted and generous enough, in-work benefits (IWBs) are a cost-effective redistribution instrument, especially as compared with more traditional redistribution policies that may entail large “efficiency losses” when they damage work
incentives. Since the poverty risk is strongly affected by household composition, IWBs that are mean-tested on family incomes can be better targeted toward the most vulnerable households than individual-based benefits. The effectiveness of IWB measures also depends on national contexts: in particular, they tend to be either ineffective or very expensive in countries with a narrow earnings distribution at the bottom of the wage ladder that prevents a proper targeting of these benefits.

- The minimum wage may constitute a useful complement to IWB schemes, but taken in isolation, has a limited effectiveness in fighting in-work poverty as it is not well targeted. In particular, it does not offer much support to the large majority of the working poor who cannot find a full-time job, and is not well suited to address other important factors underlying poverty risk, such as specific family situations. This notwithstanding, minimum wages can increase the effectiveness of IWB schemes: by providing a wage floor below which wages cannot fall, they help to achieve the intended redistribution to low-wage workers. The critical issue is to set the minimum wage to an appropriate level. Indeed, overly high minimum wages tend to compress the earnings distribution at the bottom of the wage ladder, so that IWBs are likely to become either very expensive or ineffective. Moreover, high minimum wages may have dis-employment effects, especially for some low-productivity workers. Therefore, they may increase out-of-work poverty, while reducing the risk of in-work poverty. Cutting payroll taxes at the bottom of the wage ladder helps mitigating this perverse effect, but such an anti-poverty policy tends to be very costly and potentially ineffective since the working poor represent only a small proportion of low-paid workers.

1. Taking the measure of in-work poverty

Poverty is a complex concept and several approaches exist for measuring its incidence, based on alternative criteria of what constitutes a situation of poverty for a given individual or household. Different measures of poverty provide widely different perspectives as to its prevalence, depth and evolution. This section provides a brief overview of alternative measures of poverty, including the relative measure used in this chapter. According to this measure, individuals are considered as poor if their available income is substantially lower than that of a typical person in their country of residence.

1.1. Alternative measures of poverty

The various existing measures of poverty are largely determined by two main choices: i) selecting a measurable entity, or metric, from which a situation of poverty can be inferred; and ii) selecting a threshold that separates what is poverty from what is not. In both cases, there are several alternatives.

The metric used can be “monetary” or “non-monetary”. It can also be “direct” or “indirect”, describing final living conditions of people or, rather, the means required to achieve those conditions. Indexes of material deprivation are sometimes used as a direct metric, while household income – the most commonly-used metric – is indirect. These two measures are related empirically, but the relationship between low income and deprivation is not very strong (OECD, 2008, Chapter 7; Boarini and Mira d’Ercole, 2006). Both measures have advantages and drawbacks and they should be seen as complements, not as substitutes. One drawback of the cash-income concept is that it does not account for the provision of in-kind benefits such as public health care, housing, childcare or education. Thus, it tends to overstate economic hardship in countries where such benefits are
relatively generous, and vice versa. For instance, in the absence of low-priced public childcare, the economic hardship faced by low-income households with young children will be underestimated (if private childcare expenses are not subsidised by specific public cash transfers). Income-based measures of poverty thus fail to capture the effect of any anti-poverty policies providing non-market benefits to low-income families (Blank, 2008a). By contrast, the concept of material deprivation does not suffer, in principle, from this kind of limitation since it is intended to directly measure hardship. However, this category of measures crucially depends on the set of deprivation items retained in the summary index of deprivation. In this respect, it is not clear-cut which types of deprivation are best suited to capture family economic hardship and how the various items selected should be weighed to deliver the most accurate measure of poverty. The limited comparability of deprivation indexes across countries is also an important concern, since available individual measures of deprivation often differ from one country to another.

Whatever the metric used, comparisons across countries and over time are also greatly affected by whether the dividing line between the poor and the rest of the population is defined with respect to a relative or to an absolute standard of living. In this respect, national practice differs across OECD countries, reflecting, in part, subjective judgement about national “social preferences”. For example, the United States use an absolute measure of poverty: a family is classified as being in poverty if its money income (before taxes, EITC payments and in-kind benefits) falls below a subsistence food budget – the so-called official poverty line – that has been adjusted only for price inflation since the early 1960s. By contrast, most European countries rely on a relative measure: a household is labelled as being “at risk of poverty” if its disposable income falls below a threshold set at 60% of median income. Ireland and the United Kingdom (as regards child poverty issues) have recently adopted more comprehensive approaches that use together absolute and relative measures of poverty and also combine the income adequacy concept with material deprivation indexes.

The rationale for a relative measure is that, in developed nations, poverty is fundamentally about having the resources to fully participate in society (Blank and Greenberg, 2008). This is best measured in relation to the economic capacity of middle-income families. In this context, one strength of a relative measure is that it automatically adjusts with improvements in living standards, at least to the extent that median income is a rough measure of living standards. A common objection to a relative measure is that it primarily relates information about inequality, not about basic economic needs. Indeed, the incidence of poverty (i.e. the proportion of households whose disposable income is below a percentage of the median income) will not decrease until income inequality narrows in the bottom half of the income distribution. On the other hand, a growing body of research suggests that for wealthy nations, inequality and the relative position matter for well-being, even for people who have sufficient income to meet “basic needs” (Summers, 2008). Furthermore, public opinion research underlines that the so-called subjective poverty threshold, i.e. the public opinion on the necessary minimum “get-along” income, is more consistent over time with a relative standard of poverty than it is with an absolute standard. Indeed, the latter tends to fall well below the subjective line as average income per capita increases over time (Fremstad, 2008).

In the United States, according to the so-called Gallup polls, most people stated in 2007 that the minimum income needed to “get along” where they live was more than twice the current absolute poverty line, while this subjective poverty line was almost
identical to the official threshold in the early 1960s (see Figure 3.1). By contrast, median or average responses to the get-along question were in the range of 50-60% of the median income over the whole period. But, as noted by Blank (2008b), there are widely varying views about this: some will argue that this demonstrates the weakness of an absolute poverty line, while others will argue that this reflects progress achieved over time relative to a fixed income threshold. These arguments both have their own strengths, thereby reflecting the fact that the term poverty has no universally accepted meaning.1

Figure 3.1. Alternative poverty measures in the United States for a family of four

Current dollars, 2007

Note: Gallup polls ask about the minimum amount of money a family of four would need to “get along in your local community”.

Source: Figure adapted from Blank (2008b), Figure 4. Gallup polls data are taken from Vaughan (1993) – as reported in Citro and Michael (1995), Table 2.4 – and Jones (2007). Median income and official poverty threshold are taken from the US Census Bureau.

The main lesson that can be drawn from the above example is that any poverty measure must be clear about what it seeks to measure: different concepts lead to very different poverty thresholds and, therefore, to different outcomes as regards the incidence of poverty and its evolution. At a practical level, relative income-based measures of poverty have two major advantages for international comparison of poverty: i) the distribution of household cash incomes is available in all OECD countries; and ii) while international comparisons of economic hardship based on cash income can be biased because the cash income concept does not account for international differences in the provision of non-market benefits, relative measures of poverty allow to overcome, to some extent, these kinds of difficulties. For these reasons, the present chapter is based on such a relative income-based measure of poverty, as are most internationally comparative studies on poverty in developed countries.

More precisely, individuals whose household disposable income falls below half the median value of disposable incomes in their country (see Annex Table 3.A1.1) are classified as being in poverty. Annual household money income, after direct taxes and public cash transfers, is adjusted for family size on the basis of the so-called “square root equivalence
scale”, which divides household income by the square root of household size (this implies that, for instance, a household of four persons needs twice as much income as a person living alone). The resulting “equivalent” income measure is an estimate of potential consumption for each individual in a household and individuals are defined as being in poverty if their equivalent disposable income falls below 50% of the median of the distribution of equivalent disposable income in a country. Then, the working-poor population is formed by all individuals living in a poor household where at least one adult has a job, at some point during the year (i.e. the working poor are defined with respect to a household concept, as opposed to an individual concept that would focus on the individual net income of workers).

In OECD member countries, most individuals who are poor according to this relative definition of poverty are not lacking the minimum resources required to satisfy “basic needs”. Rather, people are considered to be poor when they face a risk of social exclusion, in that their living conditions fall substantially below the typical standard of living in their country of residence. In this sense, the poverty rates presented in this chapter may constitute an upper-bound estimate of the poverty situation in OECD countries, especially for higher income countries. Indeed, this relative concept of poverty is probably more distant from a basic-needs concept in countries where per capita income is relatively high than it is in lower income countries. This must be borne in mind when making international comparisons of poverty (see Box 3.1).

Box 3.1. To what extent does the choice of a particular benchmark affect cross-country comparisons?

Within a single country, the choice between using an absolute or a relative benchmark to measure the incidence of poverty may lead to very different assessments of the severity of poverty: this comes out clearly from the above example, based on the US experience (see Figure 3.1). To what extent does the choice of a particular benchmark also affect cross-country comparisons? Since no cross-country comparable absolute measure of poverty exists, this remains an open question. In order to provide a tentative answer, the US official poverty threshold has been used to calculate an “absolute” poverty rate for each OECD countries (see figure below):*

- Overall, the OECD country ranking with respect to poverty rates does not change dramatically when poverty situations are defined with respect to an absolute standard of living, as compared to a relative benchmark set to 50% of median income. The correlation between the two country rankings is relatively strong (and statistically significant) and the relative position of a majority of the countries shown changes by less 20%.

- However, the choice of an absolute benchmark improves the relative positions of Canada, Ireland, Luxembourg and the United States in the distribution of poverty rates across OECD countries markedly, while it has the opposite effect for the Czech Republic, Hungary and the Slovak Republic. In the first group of countries, large income differences – notably at the bottom half of the income distribution – lead to relatively high poverty rates by OECD standards when poverty situations are defined with respect to a relative benchmark. But the high living standards prevailing in these countries lead to relatively low poverty rates in international comparison when a common absolute benchmark is used for all OECD countries. Conversely, the second group of countries is characterised by a narrow distribution of households income and relatively low living standards.
1.2. Poverty among the working-age population: good labour market performance helps to reduce poverty risk, but does not solve all problems

The risk of poverty among the working-age population varies greatly across countries and is the main contributor to overall poverty headcounts everywhere.

Poverty has increased over the past decade in a number of OECD countries and, on average in the mid-2000s, slightly more than one person in ten lived in a household with disposable income below 50% of the median income in the OECD area (Figure 3.2, Panel A).
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Figure 3.2. Poverty in OECD countries

Panel A. Poverty rates, mid-2000s

Panel B. Poverty and unemployment rates, mid-2000s

Panel C. Average annual change in poverty rates, mid-1990s to mid-2000s

* In Korea, the poverty rate for persons living in households with a retirement-age head is equal to 48.5%.
** In Spain, the average annual change in poverty rate for persons living in households with a retirement-age head is equal to 3.4 percentage points.
a) Percentage of individuals living in households with disposable income below 50% of the median income. Poverty rates are calculated for the whole population, persons living in households with a working-age head and persons living in households with a retirement-age head respectively.
b) Data refer to changes from the mid-1990s to around 2000 for Austria, Belgium, the Czech Republic, Ireland, Portugal and Spain and to changes from 2000 to 2004 for Switzerland.


StatLink: http://dx.doi.org/10.1787/706860871770
However, cross-country differences in poverty rates are large: while the rate of poverty among the whole population does not exceed 8% in the four Nordic countries, Austria, the Czech Republic, France, Hungary, Iceland and the Netherlands (with a minimum of 5.3% in Denmark), it goes up to 14% or more in countries such as Ireland, Japan, Korea, Mexico, Poland, Spain, Turkey and the United States, reaching a maximum of 18% in Mexico.

In all countries, the poverty rate among the working-age population is the main driver of overall poverty headcounts. Individuals living in households with a head of working age face a double-digit poverty rate in half of the OECD countries. And to give an order of magnitude, the poverty risk is higher than the unemployment risk among the population aged 15-64 in most OECD countries (Figure 3.1, Panel B). In fact, the poverty rate among the working-age population was below the unemployment rate in the mid-2000s in only seven countries: Poland and the Slovak Republic where unemployment is particularly high; and the Czech Republic, Denmark, Finland, France and Sweden where poverty rates are relatively low. By contrast, the poverty rate was at least twice the unemployment rate in Canada, Ireland, Japan, Korea, Mexico, New Zealand and the United States, due to various combinations of high poverty rates by OECD standards and below-average unemployment rates.

In a number of countries where the poverty risk for the whole population is relatively high (namely, Australia, Greece, Portugal, Spain, Korea, Ireland and Japan), individuals living in households with a head of retirement-age face a poverty rate that exceeds 20%, making a significant contribution to the aggregate poverty rate. Conversely, the poverty rate among the retirement-age population is relatively low in virtually all countries where the overall poverty rate is below the OECD average. The cross-country correlation coefficient between the two rates equals 0.4, indicative of a common country effect across all age groups. While statistically significant, this coefficient is relatively weak. Furthermore, there is much more cross-country variability in poverty rates for the retirement-age population than for the working-age population. Poverty incidence also evolved differently over the past decade for these two age groups (Figure 3.2, Panel C). The poverty rate among the working-age population increased between the mid-1900s and the mid-2000s in a majority of countries, leading to an increase in the overall poverty rate in most cases. By contrast, the poverty rate among the retirement-age population has declined over the same period in many countries. Yet, this evolution has often been less favourable, or even unfavourable, in countries where the poverty rate among the working-age population has increased most strongly.

Employment status is a major determinant of the poverty risk faced by households with a head of working age

When averaged over the 30 OECD countries, poverty rates among the working-age population vary substantially across household types (Figure 3.3, Panel A). In particular, households with children always fare worse than their childless counterparts with a comparable employment status. Not surprisingly, jobless households face higher poverty rates than working households with identical family structure (the size of the gap between these two groups being impressive). Despite these differences, a significant risk of poverty exists in virtually all cases. Two-earner couples without children are in the most favourable situation, with an average poverty rate over the OECD countries of just 2.4%. But the risk of poverty increases significantly with the presence of children and especially in jobless households where on average it could reach almost 50%.
It is noteworthy, however, that poverty rates differ considerably across OECD countries for each type of household. In most cases, the difference between the highest and the lowest poverty rate over the 30 countries is at least twice the average rate. That said, the presence of children tends to increase poverty risk in virtually all countries, a pattern that is of particular concern since a number of studies have shown that poverty has detrimental effects on child development. On average 10.5% of individuals living in households with children are in poverty in the OECD area, 2 percentage points above the rate for childless households (Figure 3.3, Panel B). This difference goes up to more than 10 percentage points in Mexico, Poland and the United States, where households with children face a poverty rate more than 5 percentage points higher than the OECD average. By contrast, in countries with low overall poverty rates (as well as Korea), poverty is less of a problem among families with children than among childless households. For instance, in the four Nordic countries, the poverty rate among families with children never exceeds 4% and may be less than one-half the poverty rate observed among their childless counterparts.

Differences in poverty rates are even larger when comparing jobless and working households (regardless of the presence of children). On average in the OECD area, 37% of individuals living in jobless households are poor, a proportion that is 5 times higher than that for households with at least one worker (Figure 3.3, Panel C). In virtually all countries, the poverty risk among jobless households is more than double the rate observed among working households and almost never falls below 20%. More than half of individuals living in jobless households are poor in five of the 30 member countries (Australia, Canada, Ireland, Korea and the United States). The ongoing economic downturn may thus have a particularly large impact on poverty in these countries, should unemployment increase as much as is now projected (see Chapter 1).

But at the aggregate level, employment performances are not the main driver of cross-country differences in the overall poverty risk among the working-age population

Since jobless people face a much higher poverty risk than the rest of the population in all countries, cross-country differences in aggregate poverty rates among the working-age population may reflect differences in overall labour market performances, along with differences in the extent to which countries have successfully implemented comprehensive strategies to fight poverty. This section decomposes cross-country differences in overall poverty rates for the working-age population into these two types of national differences.

For the sake of simplicity and clarity, the decomposition presented in Figure 3.4 splits the working-age population into just two broad categories: i) households with at least one worker; and ii) jobless households. With a few exception, labour market performance does not appear to be the main factor underlying cross-country differences in overall poverty. By contrast, the incidence of poverty within groups – working and jobless households – plays a predominant role. In all countries where the overall risk of poverty among the working-age population is relatively low (high) by OECD standards, the aggregate poverty rate would be higher (lower) if poverty rates for both working and jobless households were, instead, the same as those observed on average in the OECD area (Figure 3.4, Panel A). In fact, equalising poverty rates for these two groups to the OECD average would reduce dramatically the cross-country variance in aggregate poverty rates (the standard deviation would decrease from 4.7 to 1.4). By contrast, aggregate poverty rates among the working-age population would not change as much (nor as systematically) if all countries
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Figure 3.3. Poverty rates among the working-age population for various types of households, \( d \), mid-2000s

Panel A. OECD average for various type of households

- Average with children
- Average without children
- Minimum
- Maximum

Panel B. Poverty rates among households with children

- Poverty rate among households with children
- Poverty rates among childless households

Panel C. Poverty rates among jobless households

- Poverty rate among jobless households
- Ratio between poverty rates among jobless and working households (right-hand scale)

\( a \) Among all individuals living in households with a head of working age, percentage of individuals living in households with disposable income below 50% of the median income.

\( b \) OECD unweighted average.

Source: Calculation based on OECD (2008), Growing Unequal?

StatLink: [http://dx.doi.org/10.1787/706881716841](http://dx.doi.org/10.1787/706881716841)
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Figure 3.4. \textit{Cross-country differences in poverty rates among households of working age}^a

\textbf{Panel A. Poverty rates}^b

<table>
<thead>
<tr>
<th>Mid-2000s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage points change in aggregate poverty rates that would occur if...</td>
</tr>
<tr>
<td>... the national poverty rates for working and jobless households were the same as the OECD average</td>
</tr>
<tr>
<td>... the national share of working households were the same as the OECD average</td>
</tr>
<tr>
<td>Observed poverty rate (right-hand scale)</td>
</tr>
</tbody>
</table>

\textbf{Panel B. Average annual changes in poverty rates}^c

<table>
<thead>
<tr>
<th>Mid-1990s to mid-2000s^d</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual average change, in percentage points, that would have occurred if...</td>
</tr>
<tr>
<td>... only the poverty rate for working and jobless households had changed (i.e. constant population structure)</td>
</tr>
<tr>
<td>... only the share of working households had changed (i.e. constant household poverty rates)</td>
</tr>
<tr>
<td>Observed change</td>
</tr>
</tbody>
</table>

\textit{Note:} In Sweden, the aggregate poverty rate would be 4 percentage points higher than that observed, if the poverty rates for both jobless and working households were the same as those observed in the OECD area. Sweden would also exhibit a slightly higher (by less than 1 percentage point) aggregate rate of poverty, if this country had exactly the same share of working households as that observed on average in the OECD area.

\textit{Reading note:} In Spain, the aggregate poverty rate would have increased by more than 0.2 percentage point (on a yearly basis), if the share of working households had remained constant over the corresponding period. By contrast, the aggregate rate of poverty would have decreased by more than 0.2 percentage point (on a yearly basis), if the poverty rates for both jobless and working households had remained constant over the corresponding period.

\textit{Source:} OECD questionnaire on Income Distribution.

\textit{StatLink} \hspace{1em} \url{http://dx.doi.org/10.1787/707002274047}
had the same population structure as holds on average in the OECD area (the standard deviation of aggregate poverty rates would increase slightly from 4.1 to 4.4).

Likewise, changes in overall poverty rates over the past decade have been driven by changes in poverty rates at the household level, rather than by changes in population structure (Figure 3.4, Panel B). Changes in the share of working households among the population of working age had a relatively strong impact on poverty in only four of the 21 countries for which data are available: Australia, Belgium and Spain, where rising employment rates helped contain the rise or even led to a reduction of the poverty rate among the working-age population, and in the Czech Republic, where falling employment rates had the opposite effect.

Obviously, these simple decompositions do not imply that successful employment policies cannot be a powerful tool to fight poverty. Rather, they demonstrate that other important factors also determine poverty risk for working-age households. Interestingly, the same pattern emerges when looking at the correlation between poverty rates among the working-age population and employment rates (Table 3.1). Poverty rates tend to be lower in countries where a larger proportion of individuals of working age have a job and these correlation coefficients are highly significant in most cases. This confirms that good labour market performance, indeed, helps to reduce poverty risk. However, these coefficients are relatively small, suggesting that policies to fight poverty cannot rely entirely upon good labour market performance. Policies to achieve high employment rates need to be complemented with a solid safety-net for households containing only workers with a low earnings potential. In this respect, as the incidence of income-poverty is measured after net social transfers, this weak relationship between employment performance and overall poverty – in international comparison – may also indicate that countries differ in the generosity of social transfers granted to those individuals with weak employment prospects and who may not succeed at finding a good job (see infra).

Table 3.1. Correlation coefficients between poverty rates and employment rates

<table>
<thead>
<tr>
<th>Poverty rates (after social transfers)</th>
<th>Aggregate employment rate</th>
<th>Employment rates by household type</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Basic</td>
<td>Variables purged from…</td>
</tr>
<tr>
<td></td>
<td></td>
<td>… country fixed effects</td>
</tr>
<tr>
<td></td>
<td></td>
<td>−0.16</td>
</tr>
<tr>
<td>Nb. of observations²</td>
<td>49</td>
<td>49</td>
</tr>
</tbody>
</table>

*, **, *** statistically significant at 10%, 5%, 1% levels, respectively.

At the aggregate, these coefficients are established for 21 countries (Australia, Belgium, Canada, Czech Republic, Germany, Denmark, Spain, Finland, France, United Kingdom, Greece, Hungary, Italy, Japan, Mexico, Netherlands, Norway, New Zealand, Portugal, Sweden and United States) and three years (mid-1990s, 2000 and mid-2000s).

At the household level, these correlation coefficients are established for the same countries and years as previously, as well as for four types of household: one-adult households with/without children; two-adult households with/without children. For each type of household, the corresponding employment rate is calculated as the number of individuals leaving in households with a head of working age and at least one worker divided by the number of individuals living in the same type of households (regardless of the household employment situation). For two-adult households, individuals living in households with only one worker are given a weight equal to 0.5 in the numerator.

Source: OECD questionnaire on Income Distribution.

http://dx.doi.org/10.1787/707381465767
1.3. In-work poverty risk is significant in virtually all countries

The working poor constitute an important target population for anti-poverty policy in most OECD countries.

While employment considerably reduces the poverty risk, 7% of individuals living in households with at least one worker are poor on average in the OECD area, a proportion that has slightly increased over the past decade (Figure 3.5). As with overall poverty rates, cross-country differences of in-work poverty rates are sizeable. While in-work poverty rates are relatively low in the four Nordic countries, Australia, the Czech Republic and the United Kingdom – not exceeding 4% of the working population –, more than one in ten individuals living in households where at least one person has a job is poor in Japan, Mexico, Poland, Portugal, Turkey and the United States (Figure 3.5, Panel A). In-work poverty rates have also evolved very differently across countries since the mid-1990s. While the rate increased in more than half of the 24 countries analysed, Italy and Mexico achieved sharp declines and the OECD average increase was less than 1 percentage point per year (Figure 3.5, Panel B).

The working poor constitute an important target population for anti-poverty policy in most OECD countries. Working poor account for more than 60% of all working-age poor in the OECD area on average, and up to 80% in seven of the 29 countries for which data are available: Greece, Iceland, Japan, Luxembourg, Mexico, Portugal and Turkey (Figure 3.5, Panel A). These various proportions mirror the relative risk of in-work poverty observed in each country (i.e. the ratio between in-work and overall poverty rates), and may partly reflect the emphasis given to the specific problem of in-work poverty in national policy frameworks. These proportions are also correlated with in-work poverty rates per se, but the relationship is weaker. For instance, the share of working poor among the poor population of working age is essentially the same in New Zealand, Denmark or Finland, but the rate of in-work poverty is twice as high in New Zealand as in the latter two countries. Interestingly, compared with the rates of in-work poverty, these shares have been rather stable over the past decade and have even decreased in a number of countries (Figure 3.5, Panel B).

The in-work poverty risk also varies strongly according to family composition (Figure 3.6). Households with children tend to face much higher in-work poverty rates than their childless counterparts in virtually all countries, although this difference is much smaller for two-earner couples. The highest in-work poverty rates are observed either for lone parents (in a majority of countries) or for one-earner couples with children (notably, in Greece, Iceland, Italy, Poland, Portugal and Sweden). In one-third of OECD countries, in-work poverty rates among lone parents and/or one-earner couples with children exceed 20%. By contrast, the risk of in-work poverty is much lower for two-earner couples, for whom the rate of in-work poverty remains below 5% in virtually all countries (expect in Japan and Turkey), irrespective of the presence of children.

Work participation on both the extensive and intensive margin is part of the story

On average, half of the working poor live in households where all adult members have a job (be they single persons or two-earner couples). This proportion varies substantially across countries and one-earner couples may account for more than two-thirds of the working poor in countries such as Australia, the Czech Republic, Greece, Italy, Poland, Portugal, the Slovak Republic and Spain (Annex Figure 3.A1.1, Panel A). But differences in this form of underemployment do not appear to be the main factor underlying cross-
country differences in overall in-work poverty (Annex Figure 3.A1.1, Panel B). Once again, cross-country differences in the group-specific rates of poverty (for one-earner couples and for households where all adults have a job) explain most of the international differences in the overall rates.
This notwithstanding, who works and who does not provides only an incomplete picture of the extent of underemployment and its potential impact on in-work poverty. Work participation on the intensive margin, reflected in the number of months worked over the year and weekly hours worked while employed, is also a key determinant of working poverty. When taking into account this dimension, in addition to the fact that a number of individuals – living in a poor household where at least one adult has a job – do not work at all, the average intensity of work among the working poor differs sharply from that observed among the rest of the employed population.

Figure 3.7 reports the average number of months spent at work per household member aged 20-64. Among all persons living in a poor household, only slightly more than 20% work full-time and almost 70% of this group work on average six months or less over the year (in full-time equivalent months). By contrast, slightly more than 50% of individuals in non-poor households work full-time, and only 25% of them work on average six months or less over the year (Figure 3.7, Panel A). These are average figures for the 21 European countries for which data are available and the situation differs somewhat from one country to another. Nonetheless, underemployment on both the extensive and intensive margins appears to be a major determinant of in-work poverty in all countries (Figure 3.7, Panel B). Everywhere, more than half of the working poor work on average six months or less over the year (in full-time equivalent months).
3. IS WORK THE BEST ANTIDOTE TO POVERTY?

Figure 3.7. **Average time spent at work over the year and corresponding rates of in-work poverty, 2006**

Panel A. **Average time spent at work for individuals living in households with at least one worker**

Population aged 20-64, average over 21 European countries

Among poor households

- 12 months full-time (equivalent)
- More than six months but less than 12 months full-time (equivalent)
- Six months full-time (equivalent)
- Some work to less than six months full-time (equivalent)

% individuals

0 10 20 30 40 50 60 70 80 90 100

0 100 90 80 70 60 50 40 30 20 10 0

Panel B. **Average time spent at work for individuals living in a poor household with at least one worker**

% individuals

0 10 20 30 40 50 60 70 80 90 100

Panel C. **In-work poverty rates by working intensity**

% individuals

0 5 10 15 20 25 30 35

**a)** Reading note, Panel A: among all individuals aged 20-64 and living in a poor household with at least one worker, 30% live in households where the average time spent at work over the year, per member living in the household, is less than six months (in full-time equivalent months). The total number of hours spent at work by head and spouse (when relevant) has been computed for each household, and then, has been divided by the number of adults living in the household in question (head and spouse, when relevant, regardless of the employment status of the spouse), to obtain the average amount of hours worked per adult in each household. Calculations have been made separately for poor and non-poor households.

**b)** Among all individuals living in households with at least one worker, share of individuals with less than 50% of the median disposable income. The calculation is done separately by average time spent at work per individual as defined in note a).

Source: EU-SILC.

http://dx.doi.org/10.1787/707036627112
The relationship between in-work poverty risk and working time is not linear: in a number of countries, the poverty risk does not increase dramatically as the average time spent at work per household member decreases, unless the latter becomes very short. On average over the 21 European countries, only 2% of full-time, year-round workers are poor, a proportion that rises slightly to 2.8% when the average time spent at work is less than 12 months but remains above the six full-time equivalent months. It then increases more sharply to 8% for people spending on average six months at work, going up to 20% and more when on average less than six months are spent in employment (Figure 3.7, Panel C). In-work poverty rates vary across countries, notably when the average employment duration over the year is short. Indeed, among people working on average less than six months, the rate of in-work poverty is below 15% in Austria, Belgium, Finland, France, the Netherlands, Sweden and the United Kingdom, but is more than twice as high in Greece, Iceland, Italy, Poland, Portugal and Spain.

Work participation on the intensive margin has a substantial effect on the overall rate of in-work poverty observed in each country. A simple simulation suggests that if all persons working at some point during the year, spent at least six months at work (in full-time equivalent months), the rate of in-work poverty could be reduced by 17% on average over the 21 European countries, and by 37% if these persons worked full-time year-round (Figure 3.8, Panel A). Also taking into account work participation on the extensive margin, by assuming that all jobless persons (living in a poor working household) instead work full-time year-round, would further reduce in-work poverty: increasing work participation on both the intensive and extensive margin would indeed reduce the rate of in-work poverty by 67% on average (Figure 3.8, Panel B).

Interestingly, in all cases, there is no clear relationship between the observed rate of in-work poverty and the potential reduction that could be achieved through increasing work participation. Put differently, the choice of a particular work criterion to indentify who is sufficiently active in the labour market to be considered “at work” has a marked impact on the incidence of in-work poverty observed in each country, but does not affect much international differences in in-work poverty rates (see Annex Figure 3.A1.2).

To sum up, this descriptive analysis of poverty in OECD countries delivers two main messages:

- First, employment plays a key role in reducing the risk of poverty in each country: i) among the whole population of working age, jobless people face substantially higher poverty rates than the rest of the population; and ii) among the employed population, households whose head and spouse spend few months at work during the year are much more exposed to poverty than households with full-time workers.

- Second, employment is not a panacea, and there are other potentially important contributors to poverty headcounts in each country: i) in international comparison, there is no clear-cut relationship between labour market performances and poverty rates among the working-age population; and ii) cross-country differences in rates of in-work poverty are only partially explained by cross-country differences in work intensity of the working poor at the extensive and intensive margins.
Figure 3.8. Work participation at the extensive and intensive margins and in-work poverty rates, 2006

Panel A. Percentage reduction of the rate of in-work poverty that occurs when assuming that all persons who worked over the year spent...

- at least six months at work (full-time equivalent)
- 12 months at work (full-time equivalent)
- Observed in-work poverty (right-hand scale)

Panel B. Percentage reduction of the rate of in-work poverty that occurs when assuming that...

- all persons who worked over the year would have spent 12 months in a full-time job (intensive margin only)
- all persons would have spent 12 months in a full-time job (intensive and extensive margin)
- all persons who did not work over the year would have spent at least some time at work (extensive margin only)
- Observed in-work poverty (right-hand scale)

a) Percentage reduction when applying the poverty rate for households working at least six months full-time equivalent (at least 12 months for two-earner couples) to households working less than six months full-time equivalent (less than 12 months for two-earner couples).
b) The cumulated two bars show the percentage reduction when applying the poverty rate for households working 12 months full-time equivalent (24 months for two-earner couples) to households working less than 12 months full-time equivalent (24 months for two-earner couples).
c) Percentage reduction when applying the poverty rate for households working 12 months full-time equivalent (24 months for two-earner couples) to households working less than 12 months full-time equivalent (24 months for two-earner couples).
d) Percentage reduction when applying the poverty rate for single working 12 months full-time equivalent to single households working less than 12 months full-time equivalent and the poverty rate for two-earner couples working 24 months full-time equivalent to both one- and two-earner couples.
e) Percentage reduction when applying the observed poverty rate for two-earner couples to one-earner couples.

Source: EU-SILC.

StatLink: http://dx.doi.org/10.1787/707045762140
2. Alleviating in-work poverty

To fight in-work poverty, OECD governments can directly act on low wages through setting a statutory minimum wage. Provided that employment spells over the year are long enough, such a wage floor may guarantee a minimum income to families with low earnings potentials. To some extent, out-of-work benefits also set a wage floor, since they indirectly determine the earnings level from which employment brings additional net incomes, so that there are financial incentives to work. More generally, the design of national social transfer systems, i.e. the generosity of out-of-work benefits, as well as the way earnings of low-income families and social transfers are combined, are key elements in the toolbox of policies to alleviate in-work poverty.

2.1. Social transfers: a key component of policy packages to fight poverty

As seen in Section 1, poverty risk is strongly affected by a number of individual and household characteristics – including labour market participation and household composition – suggesting a targeted policy response is likely to be most effective. In fact, net social transfers – that is the combination of gross cash public transfers and household taxes – play a key role in reducing poverty among the working-age population in virtually all OECD countries, in considerable part because they can be effectively targeted.

Net social transfers are a major determinant of the observed cross-country differences in poverty rates

The effect of net social transfers can be measured by comparing poverty rates based on disposable income (i.e. the income concept used so far) with the incidence of poverty that would be observed in absence of gross transfers and households taxes. More precisely, poverty rates before net social transfers refer to the share of people with market income (i.e. pre-transfer/tax income) below 50% of household disposable income (see OECD, 2008, Chapters 4 and 5). Therefore, the difference between the poverty rates based on disposable and market income reflects both the size of net social transfers and the extent to which these are targeted to the poor. This difference measures a “first-order” effect of net social transfers on poverty, since it does not take into account the possible impact of these transfers on the distribution of market income itself.

On average over the 28 countries for which data are available, net social transfers cut the poverty rate by almost half among the working-age population (Figure 3.9, Panel A). There are large differences across countries, however. In countries such as Denmark, France and Sweden, the poverty rate among households with a head of working age falls by more than two-thirds after transfers, while in Canada, Japan, Korea, Mexico, Spain and the United States, the reduction achieved represents less than one-third of the poverty rate before social transfers.

On average, social transfers reduce the poverty rate among jobless people by slightly more than half, from 84% to 38% (see also Annex Figure 3.A1.3). By comparison, the average reduction achieved among households where at least one person is at work, while still sizeable, is smaller. The rate of in-work poverty declines from 12% to 7% after social transfers (a 44% reduction). Similarly, in virtually all countries, transfers are more effective in alleviating poverty among one-earner couples than among households where all adults are working. On average, the rate of in-work poverty is cut by 50% among the former, against slightly less than 40% among the latter (Figure 3.9, Panel B).
Figure 3.9. By how much do net social transfers reduce poverty?
Percentage reduction of poverty rates operated by net social transfers, mid-2000s

Panel A. Poverty rates among the working-age population, depending on employment status

- All households with a head of working age
- Households with at least one worker
- Jobless households

Panel B. In-work poverty rates and underemployment at the household level

- Households with all adults working (two-earner couples or single persons)
- One-earner couples

a) Difference between poverty rates before and after social transfers, as a percentage of the poverty rate before social transfers. The poverty rates before and after transfers are calculated on market-income and disposable income, respectively.

b) The poverty rate is calculated as the percentage of individuals living in households with income below 50% of the median income for all individuals living in all households with a head of working age, individuals living in households with no workers, individuals living in households with at least one worker. Countries are ranked by increasing poverty rate for all households with a head of working age.

c) The poverty rate is calculated as the percentage of individuals living in households with income below 50% of the median income for all individuals living in households with a head of working age and all members working (singles or two-earner couples), and individuals living in one-earner couples. Countries are ranked by increasing in-work poverty rate for households with all adults working.

Source: OECD questionnaire on Income Distribution.

[StatLink](http://dx.doi.org/10.1787/707075848114)
Here again, the extent to which social transfers impact on the risk of poverty faced by these different categories of the population may vary substantially from one country to another:

- A small number of countries appear to place greater emphasis in their social transfer system on alleviating poverty for working households than for jobless households. This pattern is observed in Australia, Canada, Ireland, the United States and, to a lesser extent, the Czech Republic and Korea.

- In some other countries, including Hungary, Norway and Spain, the impact of social transfers on poverty rates is neutral towards these two groups.

- In a third group of countries, social transfers appear to be much more targeted towards jobless households than working households, reducing the poverty rate of the latter to a much lesser extent than that of the former. This pattern is observed in a relatively large group of countries, including Austria, Belgium, France, Greece, Iceland, Italy, Luxembourg, Mexico and Portugal. In Japan, transfers even slightly increase the poverty rate among working households.

As a result of this diversity, differences in national social transfer systems substantially affect cross-country comparison of poverty rates. This is especially true for people living in jobless households (Figure 3.10). In fact, the design of national transfer systems appears to be a key determinant of the OECD country rankings with respect to poverty rates. Indeed, the cross-country standard deviation of national poverty rates relative to the OECD average is always larger after social transfers than before. Furthermore, a number of countries end up above (below) the OECD average after social transfers, whereas they have the opposite position in the distribution of (relative) pre-transfer poverty rates. In most of the remaining countries, the size of the gap between national poverty rates and the OECD average rates after social transfers is mainly explained by those transfers and not by the pre-transfer position of these countries.

This pattern is particularly marked when looking at the relative poverty rates of people living in jobless households, but it also comes out rather clearly for the overall (relative) rate of poverty among the working-age population, and then more weakly for (relative) in-work poverty rates. Looking at the overall rate of poverty, taking into account social transfers – when measuring the incidence of income-poverty – deters a lot the relative position of Korea, Japan, Mexico, Spain and the United States, while it has the opposite effect in countries such as Belgium, Denmark, France and Hungary. Overall, social transfers markedly weaken the link between employment and the poverty rate observed among the whole working-age population. Poverty rates before transfers are indeed strongly linked to employment rates (Table 3.2), with the cross-country correlation coefficient often being more than twice as high as that observed between employment rates and poverty rates after social transfers.

A closer look at the interaction between social transfers, employment and in-work poverty

As noted above, social transfers play a key role in reducing poverty among jobless people, and to a lesser extent, among those who are working. In fact, the interaction between social transfers and employment is rather complex. First, generous out-of-work benefits may reduce financial rewards from working if they are not carefully designed. What matters is both the level of out-of-work benefits and the way they are withdrawn at the bottom-end of the wage
**Figure 3.10. How much do social transfers affect cross-country differences in poverty rates?**

National poverty rates relative to the OECD average, mid-2000s

Panel A. Poverty among the whole working-age population

- Before net social transfers (NST)
- After NST

Panel B. Poverty among jobless households

Panel C. In-work poverty

Poverty rates before and after transfers are calculated on market income and disposable income, respectively. In both cases, poverty rates are calculated as the percentage of individuals living in households with income below 50% of the median income for all individuals living in all households with a head of working age (Panel A), individuals living in households with no workers (Panel B), individuals living in households with at least one worker (Panel C). Countries are ranked by increasing poverty rate after net social transfers.

Source: OECD questionnaire on Income Distribution.

http://dx.doi.org/10.1787/707081640658
3. IS WORK THE BEST ANTIDOTE TO POVERTY?

The amount of net social transfers granted to working households with low earnings potentials gives a first picture of the extent to which the latter contribute to improve living standards at the bottom of the income distribution (Figure 3.11).

First, net social transfers can be substantial and appear to be closely targeted on the most vulnerable families. In all countries, the highest amounts are granted to households with children and containing only one worker employed in a part-time job (20 hours per week).

### Table 3.2. Correlation coefficients between employment rates and poverty rates among the working-age population, before and after social transfers

<table>
<thead>
<tr>
<th>Poverty rates before social transfers</th>
<th>Basic</th>
<th>Variables purged from household and country fixed effects</th>
<th>Variables purged from household, country and time fixed effects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poverty rates after social transfers</td>
<td>–0.59***</td>
<td>–0.70***</td>
<td>–0.69***</td>
</tr>
<tr>
<td>Nb. of observations^2</td>
<td>252</td>
<td>252</td>
<td>252</td>
</tr>
</tbody>
</table>

*** statistically significant at 1% level.

a) See Table 3.1.

Source: OECD questionnaire on Income Distribution.

OECD tax and benefit models allow one to assess the features and consequences of tax and benefit policies in 29 OECD countries. The models take into account all those complex legal rules concerning entitlement to benefits as well as tax obligations in different countries. The OECD models thus help assessing how taxes and social benefits affect incomes of different individuals in and out of work for different family types, various intensities of work (per week and per worker) and different earnings or previous earnings levels. Calculations take into account the income taxes and social security contributions due on earnings and benefits. Benefits such as unemployment benefits, social assistance, family benefits, housing benefits and in-work benefits are included in the calculations (for further details, see [www.oecd.org/els/social/workincentives](http://www.oecd.org/els/social/workincentives)). However, the models do not take account of behavioral responses to changes in tax and benefits.

All tax-benefit calculations presented in the present chapter refer to families with low earnings potentials, where head and spouse (when relevant) are paid an hourly wage equal to 40% of the average wage (or to the minimum wage if the latter is higher than 40% of the average wage). Full-time employment corresponds to 40 hours of work per week and per worker. When relevant, housing costs used to calculate housing benefits are assumed to be equal to 10% of the average wage. This is a rough approximation of housing costs, which are assumed to be much lower for low-income families than for a typical family that is assumed to pay around 20% of the average wage in housing costs in the baseline scenario of these models.
3. IS WORK THE BEST ANTIDOTE TO POVERTY?

Figure 3.11. **Total amounts of net social transfers granted to households with low-wage workers, 2006**

- **Panel A. Single-adult households**
  - No children
  - Two children

- **Panel B. One-earner couples**
  - No children
  - Two children

- **Panel C. Two-earner couples**
  - Employment situation of the second earner (head working 40 hours weekly)

NST: Net social transfers.

Note: The poverty threshold is set at 50% of the median equivalised income. See Box 3.2 for details on the OECD tax-benefit model assumptions.

Source: OECD tax-benefit models.

StatLink: [http://dx.doi.org/10.1787/707105676247](http://dx.doi.org/10.1787/707105676247)
On average over the 24 OECD countries for which data are available, net social transfers represent 25% of the median income for these families, that is, half of the income level needed to reach the poverty threshold. And while there are large differences across countries, the amount granted remains above 20% of the median income in almost two-thirds of the 24 countries. This notwithstanding, one half-time job at the bottom of the wage ladder allows families with two children to escape poverty in only few countries, with above-average net transfers: Australia, Germany, Ireland, and the United Kingdom, as well as Japan and New Zealand in the case of lone parents only. On average in the OECD area, half-time work brings net incomes of those families to around 45% of the median income (see also Annex Figure 3.A1.4). The average net income of childless households is slightly lower (at around 40%), reflecting the fact that in all countries, they are entitled to substantially lower amounts of net transfers.

Second, net social transfers at the bottom of the wage distribution decline rapidly with earnings. For instance, they decrease from 25% to around 10% of the median income for households with two children when the total number of hours worked increases from 20 to 40 hours per week. And in virtually all countries, net social transfers become negative for childless households as soon as at least one person has a full-time job, and among families with children, when both spouses work full-time. For these families, the amount of taxes paid is larger than the benefits received even when the second earner works only half-time in almost half of the 24 OECD countries for which data are available.

As a result of this strong negative link of net social transfers with earnings, full-time work in a low-paid job does not allow one-earner families to escape poverty in many countries. The situation of lone parents is the most critical, since the full earnings potential is exploited. And for the latter, net social transfers are significantly above the amount needed to reach the poverty line in only four countries, namely Australia, Ireland, Germany and the United Kingdom, while they stand below that level in 14 out the 24 countries. Moreover, although the net amount of taxes paid do not prevent the net income of families with two full-time earners to cross the poverty threshold, economic self-sufficiency is not always fully secured. In a number of cases, disposable incomes do not go far beyond – or even remain below – 60% of the median income, an income level at which the poverty threshold is commonly set in many European countries (see also Annex Figure 3.A1.4). Indeed, on average over the 24 countries for which data are available, working full-time in low-paid employment brings disposable incomes of two-earner couples with children to only 65% of the median income. By contrast, the average disposable income of their childless counterparts reaches 80% of the median income, thus being significantly above the poverty threshold.

For families with a low earnings potential, the financial payoff from work is not fully depicted by the level of disposable incomes that can be reached, although the latter remains the true determinant of the living conditions that can be achieved. Financial rewards from working also depend on the net amount of additional incomes brought by employment, as compared with the amount of transfers received by social assistance recipients. Figure 3.12 reports the average effective tax rate when taking up low-paid employment:

- When only one person in the household has a half-time or full-time job at the bottom of the wage ladder, financial rewards from work tend to be very low. On average over the 24 OECD countries, the proportion of gross earnings offset by reduced social benefits, social contributions or income taxes varies from 70% to 80% for these households. This means that only about 20% to 30% of those modest earnings add to available net income.
In virtually all countries, financial rewards from working are substantially higher for the second earner, with however a sizeable difference between childless households and families with children. On average over the 24 OECD countries, 50% of spouse gross earnings are taxed away when she takes up a half-time job, and 45% when she works full-time and there are children present in the household. By contrast, this rate remains slightly below 30% in both cases for childless households.

To sum up, there may be some room for reshaping national systems of benefits and taxes in a number of countries so as to provide further support to families with children. First, the standard of living (as measured by net incomes as a percentage of the median

Figure 3.12. **Average effective tax rates for households with low earnings potentials, 2006**
Reduction of net social transfers when moving from social assistance to employment, as a percentage of gross earnings

**Panel A. Single-adult households**

<table>
<thead>
<tr>
<th>% gross earnings</th>
<th>No children</th>
<th>Two children</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>10</td>
<td>50</td>
</tr>
<tr>
<td>10</td>
<td>20</td>
<td>60</td>
</tr>
<tr>
<td>20</td>
<td>30</td>
<td>70</td>
</tr>
<tr>
<td>30</td>
<td>40</td>
<td>80</td>
</tr>
<tr>
<td>40</td>
<td>50</td>
<td>90</td>
</tr>
<tr>
<td>50</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

**Panel B. Two-adult households**

<table>
<thead>
<tr>
<th>% gross earnings</th>
<th>No children</th>
<th>Two children</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>10</td>
<td>50</td>
</tr>
<tr>
<td>10</td>
<td>20</td>
<td>60</td>
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<tr>
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</tr>
<tr>
<td>50</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

Note: See Box 3.2 for details on the OECD tax-benefit model assumptions.
Source: OECD tax-benefit models.

StatLink: [http://dx.doi.org/10.1787/707117526031](http://dx.doi.org/10.1787/707117526031)
equivalised income) that can be reached by working full-time in a low-paid job is substantially lower for families with children than for childless households. Second, among two-adult households, financial rewards from taking up a job for the spouse – as compared to income on social assistance – are substantially lower when there are children present in the household than they are for childless households. Moreover, the above results do not account for childcare and education costs, and the economic situation of families with children may be even more difficult than these estimates indicate in a number of countries (see OECD 2007). These two patterns of benefits and taxes may impair on the efficiency of whole system for at least two important reasons: i) in terms of labour market participation, women tend to react more strongly than men to financial incentives, notably when they have children (see Immervoll and Pearson, 2009); ii) in a longer-run perspective, strong inter-generational transmission of social and economic status implies that children living in poor or near-poor households are at an elevated risk of facing labour market difficulties in the future (OECD, 2009).

2.2. In-work benefit schemes can be an effective tool to fight in-work poverty

Of course, increasing financial rewards from working at the bottom of the wage ladder could be done by reducing the level of benefits for jobless people. But this would in turn increase poverty among those who are unable to find a job, and would leave the situation of the working poor unchanged. Instead, a growing number of OECD countries have introduced in-work benefits (IWBs) or tax credits for individuals facing particular labour market challenges.

Distributional properties of IWBs vary significantly from one scheme to another

IWBs not only create additional financial rewards for seeking work, they also increase the payoff of remaining in work for recipients who already have a job. In other words, these schemes redistribute resources to low-income families who are making an effort to support themselves through work. Countries differ in the emphasis given to these different objectives – namely, redistribution vs. incentives to take up a new job – which is reflected in the way these schemes are designed (see Box 3.3).

Figure 3.13 reports the main distributional aspects of IWB schemes in 11 out of the 16 OECD countries where such in-work cash transfers are in place. It refers to households where all employed individuals work in a low-paid job, earning an hourly wage equal to 40% of the average wage (or to the minimum wage when the latter is higher than 40% of the average wage).

In all of the selected countries, permanent IWBs reach low-income families (Figure 3.13, Panel A). In most cases, benefit payments start well below the poverty threshold, at income levels (before IWBs) varying between 6-20% of the median income in the United States (depending on the presence of children) and 48% of the median income in the United Kingdom. In addition, the benefit amount reaches its maximum level around the poverty threshold in virtually all cases, except in France and the Netherlands where the highest amount of IWBs is granted when incomes (before IWBs) are close to, or even higher than 60% of the median income. The income levels where IWBs start and/or are maximum reflect the combination of two factors: i) the precise targeting of these schemes, notably in countries such as Ireland, New Zealand and the United Kingdom where requirements with respect to working time prevent a number of households from being entitled to IWBs; and
3. IS WORK THE BEST ANTIDOTE TO POVERTY?

Box 3.3. Key features of in-work benefit schemes

In 2006, more than half of all OECD countries operated employment-conditional cash transfers in one form or another: Australia, Belgium, Canada, Finland, France, Germany, Hungary, Ireland, Korea, Japan, the Netherlands, New Zealand, the Slovak Republic, Sweden, the United Kingdom and the United States. The main features of these various national schemes, their distributional properties and their potential employment effects are reviewed by Immervoll and Pearson (2009). To sum up, the design of IBW schemes can be described along two main dimensions:

1. The characteristics of the beneficiary population. First, IWBs can be targeted towards individual low-paid workers or towards low-income families. In the first case, incomes are assessed individually for the benefit recipient, while they are assessed jointly for the couple or the family as a whole in the second case. And although there are overlaps between low-income households and low-paid employment, the resulting beneficiary populations may differ substantially. Only six OECD countries operate IWB schemes that are means-tested on family incomes: Canada, Ireland, New Zealand, the Slovak Republic, the United Kingdom and the United States. Second, in many countries, only families with children have access to IWBs. This reflects a particular concern for child poverty and child well-being (Whiteford and Adema, 2007; OECD, 2008). Third, in a small number of countries, benefits are only available to social-assistance recipients or unemployment-insurance recipients entering or re-entering employment. Australia, Belgium, Korea and Japan operate only this kind of IWB schemes (however, in Belgium, all low-wage workers benefit from reduced employees social security contributions).

2. The benefit design. First, the generosity of IWB payments depends on other components of redistribution policy and on institutional features of the social welfare system (e.g. the minimum wage, whether or not there are universal payments, family or housing benefits, etc.) and, consequently, varies substantially across countries. Second, the link between earnings levels and IWB amounts also differs from one scheme to another. Most IWBs are conditional upon the earnings level only and are permanent, i.e. paid for an indefinite period of time. They are phased in as earnings rise up to a threshold and then are gradually reduced over a range of income levels according to a phasing-out rate. There are two main variants on this basic design: i) in addition to the earnings level, IWBs can be also conditional upon a minimum number of hours of work. For instance, benefits are available to individuals working at least 16/30 hours per week in the United Kingdom (depending on the presence of children in the household), 19 hours in Ireland, and 20/30 hours in New Zealand (depending on the number of adults in the household). In these countries, there is no gradual phase-in, IBWs are highest for households with the lowest earned incomes; ii) IWBs that are restricted to previous recipients of out-of-work benefits are obviously limited in duration, and sometimes, are not income-dependent. For instance, in Japan and Korea, unemployed people who get a job rapidly are rewarded with a bonus calculated as a proportion of the amount of their unemployment insurance benefit entitlement that has not been used.

ii) the generosity of non-employment-conditional benefits received by households before IWB payments start. This latter aspect explains, for instance, why in the United States IWBs start at very different income levels for households with and without children.

Another major component of the targeting pattern is the overall range of incomes over which benefits are available, in that it determines the size of the recipient population and the fiscal cost of such schemes. In this respect, there are sizable differences between countries.
Figure 3.13. How much do low-paid workers get from in-work benefit schemes?

Households with at least one worker, earning 40% of average wage on an hourly basis, 2006

Panel A. Range of net incomes (before IWB payments) over which IWBs are granted, as a percentage of median equivalised income

<table>
<thead>
<tr>
<th>IWB granted on a regular basis</th>
<th>Transitory IWB granted after SA or UI benefit systems</th>
</tr>
</thead>
<tbody>
<tr>
<td>% median income</td>
<td>% median income</td>
</tr>
<tr>
<td>Net income where IWBs start</td>
<td>Net income where IWBs start</td>
</tr>
<tr>
<td>Net income where IWBs are maximum</td>
<td>Net income where IWBs stop</td>
</tr>
<tr>
<td>Poverty line</td>
<td>Poverty line</td>
</tr>
</tbody>
</table>

Panel B. Amounts paid, as a percentage of median equivalised income

<table>
<thead>
<tr>
<th>IWB granted on a regular basis</th>
<th>Transitory IWB granted after SA or UI benefit systems</th>
</tr>
</thead>
<tbody>
<tr>
<td>% median income</td>
<td>% median income</td>
</tr>
<tr>
<td>IWB payments around the poverty line</td>
<td>Maximum IWB payments</td>
</tr>
</tbody>
</table>

IWB: In-work benefits.

a) Net incomes where IWBs start (stop) refer to the minimum (maximum) level of net incomes where IWBs start (stop) over two types of household: single persons and couples. Net incomes where IWBs are maximum refer to the average net incomes where IWBs are maximum over the same two types of households.

b) Transitory benefits paid after a move from the unemployment insurance or social assistance systems can also be found in Australia, Canada, France, Netherlands and the United States, but they represent small amounts and/or are granted over a small range of incomes.

c) The phasing-out of in-work benefits ends up after the income level that a family containing only low-wage workers (40% of AW) can reach.

d) Lump-sum: In-work benefits remain constant after the income level shown in the above figure (i.e. the phasing-out starts after the maximum income level that a family containing only low-age workers can reach).

e) Maximum amount over two types of household, namely single persons and couples. Amount around the poverty line: average over two types of household, namely single persons and couples.

Source: OECD tax-benefit models.

StatLink: http://dx.doi.org/10.1787/707122070363
In Finland, France, the Netherlands and the Slovak Republic, the phasing-out of IWBs ends up after the maximum level of income that a household containing only low-wage workers can reach (when working 120 hours per week), which is quite far above the median income in all of these four countries. By contrast, in Ireland, New Zealand, the United Kingdom and the United States, benefit payments end between 60% and 90% of the median income (except for childless households in the United States, where they stop much earlier). As a result, the maximum amounts of benefit are much more generous in these four countries, varying from 9% of the median income in the United States to as much as 25% of the median income in Ireland (for households with two children). And while benefit payments are smaller at the poverty threshold (essentially because households’ earnings are higher), they still make a difference and significantly help low-income families to reach this threshold. Likewise, IWBs that are only available to previous recipients of out-of-work benefits and for a limited duration tend to be quite generous (Figure 3.13, Panel B). On the other hand, in the four countries that operate regular IWB schemes over a large range of household incomes (Finland, France, the Netherlands and the Slovak Republic), the amounts granted remain below 5% of the median income. In these cases, the behavioural responses are unlikely to be very significant.

To sum up, the various IWB schemes effectively reach low-income families, be they individual-based or mean-tested on family incomes. But given budget constraints, programmes need to be tightly targeted for the benefit level to be generous enough to have a real impact on in-work poverty. In this respect, mean-tested IWBs have a major advantage: they make it easier to reach only low-income families, witnesses the Earned Income Tax Credit (EITC) in force in the United States, and to a lesser extent, IWBs available in Ireland, New Zealand and the United Kingdom. Requirements with respect to working time or previous employment status also allow a tighter targeting of IWB schemes. But in terms redistribution, these additional entitlement criteria have the major drawback of excluding a large proportion of the most disadvantaged families from the beneficiary population, while a number of median-income families may be eligible to the programme (in particular, when the benefits in question are not means-tested on family incomes). In fact, these eligibility conditions tend to shift IWBs away from redistribution, towards a work-incentive policy.

**Well-designed IWBs may be successful in reducing poverty, as well as a cost-effective redistribution instrument**

Strengthening work incentives is a key objective of IWB schemes and their effectiveness in redistributing resources towards the most disadvantaged working families also depends on their employment effect. In this respect, although means-tested benefits have more favourable distributional properties (ex ante), they tend to damage work incentives of other potential earners in the household. Individual-based IWBs avoid this adverse effect. Still, all these schemes may reduce financial incentives to move up the wage ladder and thus, to increase work intensity on the intensive margin (as well as, to invest in human capital). However, empirical evidence suggests that, provided that IWBs are large enough to create a sizeable difference between welfare income and work income, their overall effect on employment is positive although relatively small in most cases (see e.g. Blundell et al., 2000; Blundell and Hoynes, 2004; Brewer et al., 2006; Ellwood, 2000; Eissa and Hoynes, 2004; Grogger, 2003; Hotz and Scholz, 2003; Keane and Moffitt, 1998; Meyer and Rosenbaum, 2001; and Michalopoulos et al., 2005). The positive effects of additional
employment outweigh the costs created by reduced incentives to work more, even in the
case of mean-tested benefits. Consequently, such schemes can potentially have a marked
impact on poverty.7

Moreover, compared to other redistribution policies, the efficiency cost of IWB schemes
can be very small relative to the redistribution achieved. These schemes have often been
assessed in terms of the cost “per job created”, which is generally high. But such cost
assessments fail to fully account for the favourable distributional effects of IWB policies and
a more comprehensive approach should also take into account the potential benefits
associated with the reduction in inequality and in-work poverty. Using such an approach,
some recent results point towards rather low overall costs “per dollar transferred”, especially
as compared with more traditional redistribution policies, which may entail large “efficiency
losses” if they strongly damage work incentives. For instance, Immervoll et al. (2007) suggest
that the cost to taxpayers of redistributing one euro in the form of an in-work benefit can be
as low as one euro, implying an efficiency cost close to zero. Because low-income workers
tend to be more responsive to financial incentives than middle or high-income earners, there
is a distinct possibility that the additional tax burden on higher-income earners is in fact
relatively small if the savings from each additional job are large (out-of-work benefits are no
longer payable). Nonetheless, a number of studies also indicate that the effectiveness of
IWB-type policies varies substantially across countries.

The effectiveness of IWBs also depends on other components of national redistribution
policies

A precise and well-conceived policy design is not enough for achieving an efficient
targeting that would guarantee a meaningful degree of redistribution – i.e. a reduction of
income disparities between working recipients and non-recipients – as well as increased
work incentives at the bottom of the wage ladder. In this respect, the distribution of in-
work earnings in the population, and particularly, the number of low-wage earners who are
potential beneficiaries are critical aspects (see Immervoll and Pearson, 2009). A proper
targeting of the benefits is less straightforward if income differences are quite small to
begin with, but this also reduces the scope for financing IWBs in an effective way. In
essence, many of those benefiting from the IWB payments are at the same time paying for
its financing: they face higher tax burdens that partly offset the benefit payments.8
Conversely, a highly dispersed income distribution makes it relatively easy to distinguish
recipients of the IWB from higher-income groups contributing to the financing of the
scheme. Moreover, the required revenue can then be raised by slowly increasing tax
burdens over a wide income range. In such circumstances, IWB schemes can be a cost-
effective tool to redistribute resources towards the most disadvantaged families (see
Box 3.4). By contrast, IWBs are likely to be either very expensive or ineffective in countries
where high out-of-work benefits or high minimum wages tend to compress the earnings
distribution at the bottom of the wage ladder.

2.3. Minimum wages alone are not the best instrument to fight in-work poverty,
but they may constitute a useful complement to IWBs

Since earnings from work are the most immediate determinant of in-work incomes,
minimum wages are often seen as an important policy tool to fight in-work poverty. But as
such, the weak targeting of minimum wages limits their effectiveness. In this respect, a
number of studies suggest that a large proportion of the working poor would not benefit
Box 3.4. Effectiveness of IWBs and earnings distribution at the bottom of the wage ladder

The effectiveness of IWBs depends on a number of key aspects, including the tax system and the ex ante distribution of market earnings, itself shaped by a number of policy tools such as the minimum wage and non-employment benefits that directly or indirectly set a wage floor.

In a study comparing the effect of stylised IWBs in Germany, Sweden, the United Kingdom and the United States, Bassanini et al. (1999) suggest that such instruments are less suited for the Swedish or the German economy than for UK or US context. IWB programmes, where workers with higher earnings finance the tax credits for the low paid, produce better overall effects – both in terms of total labour supply, unemployment and welfare – in countries with wider earnings distribution and lower marginal taxes (e.g. the United States and the United Kingdom). By contrast, the combination of compressed earnings distribution, high reservation wages and high taxes on labour makes the introduction of IWBs costly in Germany, and especially in Sweden, with moderate (or even negative) overall labour supply effects. Likewise, considering the introduction of a simple IWB in 15 European countries, Immervoll et al. (2007) find that the cost-effectiveness of IWBs varies sharply across countries. Paying a 1-euro transfer to low-income workers would cost higher-income groups around 1 euro in the United Kingdom and even less than 1 euro in Ireland, both countries with relatively wide earnings distributions at the bottom of the wage-ladder. In other words, these results suggest that there is no “efficiency loss” associated with the IWB in these countries (and even an “efficiency gain” in Ireland). By contrast, in Finland and Sweden, both countries with compressed earnings distributions, the hypothetical 1-euro IWB would be very expensive, costing as much as 5 euros in Finland and 4 euros in Sweden.

Interestingly, in countries with relatively narrow earnings distribution at the bottom of the wage ladder, the ratio between very low wages – as measured by the first decile of the earnings distribution – and the median disposable income (for a single person without children) tends to be relatively high, meaning that these low wages may allow families with a very low earnings potential to reach an acceptable minimum standard of living (see the figure below). Therefore, this reduces the need for IWB type measures in these countries.

Earnings distribution at the bottom of the wage ladder, 2005a

![Earnings distribution chart]

a) P10 and P30: first and third deciles of the wage distribution, for full-time workers. In France, P10 and the minimum wage are equal. There is no statutory minimum wages in Austria, Denmark, Finland, Germany, Norway, Sweden and Switzerland. Data refer to 2004 for Germany.

Source: OECD Database on Earnings; OECD questionnaire on income distribution.
from a minimum wage increase, because they already earn hourly wages above the minimum (e.g. Burkhauser and Sabia, 2008, for the United States; Sutherland, 2001, for the United Kingdom). More generally, the overlap between low-paid employment and in-work poverty is rather low. Indeed, only slightly more than half of the working poor live in households where there is at least one person employed in a low-paid job (on an hourly basis), on average over the 21 European countries for which data are available (Figure 3.14, Panel A). This proportion varies across countries, but never exceeds two-thirds of the targeted population.9

In addition, the minimum wage is a doubled-edge instrument. While setting a relatively high wage floor may reduce in-work poverty, this may also increase out-of-work poverty. Although there is no clear cut evidence of a strong disemployment effect at the aggregate level, possible disemployment effects among low-productivity groups, such as younger workers, should be taken into account when assessing the potential impact of the minimum wage on poverty, as these are the very groups that a binding wage floor is supposed to assist (see Neumark and Wascher, 2006; Immervoll and Pearson, 2009). In this context, a number of countries have reduced employer’s social security contributions at the minimum-wage level in order to mitigate potential disemployment effects. However, from the specific perspective of fighting in-work poverty, such policies may entail large deadweight costs since a large majority of the beneficiaries of these fiscal measures are not poor. Indeed, the working poor represent a small share of all low-wage workers: on average over the 21 European countries for which data are available, less than one in ten low-wage workers lives in a poor household (Figure 3.14, Panel B).

Nonetheless, as with any other redistribution policy, a finding of negative employment effects does not mean that minimum wages is undesirable. The critical issue is to set the minimum wage to an appropriate level, so that disemployment effects remain small relative to the income gains of low-wage workers (those remaining in their jobs and those taking up work as a result of improved work incentives). Formalising this equity-efficiency trade-off, Lee and Saez (2008) show that a low minimum wage can be welfare-improving in spite of disemployment effects. Minimum wages may constitute a valuable instrument to address in-work poverty problems among households in which all working-age adults are employed full-time in a low-paid job. In this respect, it is noteworthy that in virtually all OECD countries where a statutory minimum wage exists, it is set high enough to prevent in-work poverty for most of these household types (see Immervoll and Pearson, 2009). Lone parents are often a notable exception, however. This reflects the fact that minimum wages are not designed to address specific family situations or specific employment conditions (such as part-time work). As a redistributive tool, this is the main limitation of minimum wages. And setting a very high wage floor would not help, since it could damage the employment prospects of the most vulnerable workers. All in all, minimum wages set a wage norm for regular workers with low earnings potentials, and this norm needs to be complemented by specific policy tools that can be accurately targeted to address specific situations.

In this respect, there are strong synergies between the minimum wage and IWBs. Provided that the minimum wage is set to a reasonable level, it can increase the effectiveness of IWB schemes (see Immervoll and Pearson, 2009). By preventing wage levels at the bottom from falling, they prevent employers from “pocketing” the value of IWBs by lowering wages.10 Thus, combined with IWB schemes, minimum wages help to achieve the intended redistribution to low-wage workers. Second, the congruence of policy objectives means that minimum wages can to some extent be traded directly against reduced
IWB payments. As a result, overall expenditure on IWBs can be lower, as can the taxes needed to finance them. With minimum wages in place, the burden of supporting low-wage workers then falls to a larger extent on employers, as well as their customers and employees, and to a lesser extent on taxpayers financing government transfers. In particular, lower IWB levels mean that the steepness of benefit phase-outs can be reduced, which helps to limit the negative labour supply effects of high marginal tax rates associated with benefit tapers.

Figure 3.14. **Overlap between in-work poverty and low-paid employment, 2006**

Panel A. Share of the working poor living in a household with at least one low-wage worker

Panel B. Share of low-wage workers living in a poor household

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a) Low-wage workers are defined as those with hourly wage below the lowest quintile threshold of the wage distribution.

b) Among all individuals living in a poor household with at least one worker, percentage of individuals living in a household with at least one low-wage worker.

Source: EU-SILC.
Conclusions

Policies to fight poverty have to fulfil several objectives. They should provide adequate safety nets to individuals with weak employment prospects and who may experience recurrent spells of unemployment before finding a stable job, while also ensuring that it pays to work. They should also ensure that working full-time in low-paid employment allows achieving decent living conditions, without damaging demand for low-skilled workers.

Few OECD countries have been successful in addressing these multiple challenges. Poverty rates among jobless people are relatively high in many countries, and while full-time employment generally allows childless households to achieve adequate living conditions, this is often not the case for families with children. In a number of countries, disposable income of couples with children does not exceed 60% of the median income when both spouses are working full-time in low-paid employment. In the current economic downturn, where labour market conditions are worsening in most OECD countries, there are few margins for these families to remain above the poverty threshold, even if both spouses stay employed but face a reduction of hours worked. Moreover, the proportion of two-earner couples could decrease, notably among low-wage-earner families whose employment situation tends to be more sensitive to economic downturns. This would in turn increase in-work poverty in many countries, where one full-time job at the bottom of the wage ladder is not enough for the household to cross the poverty threshold.

And for lone parents working in low-pay employment, the situation is even more critical: full-time work and poverty coexists in many countries. For these families, employment constitutes a solid path towards economic self-sufficiency in only 3 countries: Australia, Ireland and the United Kingdom. In these countries, while out-of-work benefits are relatively generous by OECD standards, full-time work still brings substantial income gains, since average effective tax rates are not overly high. In Ireland and the United Kingdom, in-work benefit payments play a key role, adding significantly to available income of families with a low earnings potential. More generally, when they have a strong distributional component, in-work benefit schemes have the potential to be an effective anti-poverty tool, provided that they are well-designed. In economic downturns, they can become a major element of policy strategies to fight in-work poverty, through supplementing the incomes of low-wage workers facing a decrease in their working hours and earnings.

Notes

1. Besides, when comparing the absolute poverty line with the relative threshold set at 30% of median income, changes over time have been quite similar. Therefore, given the current definition of the official poverty line in the United States, relative and absolute standards of poverty may become almost equivalent in practice, provided that the relative threshold is set at a sufficiently low percentage of median income.

2. It is noteworthy that several equivalence scales exist and when measuring the incidence of poverty, the choice of one particular scale may also affect the outcome (see www.oecd.org/dataoecd/61/52/35411111.pdf).

3. For instance, a country in which the poverty rate for each household type is close to the OECD average, but where there are relatively few jobless households, will have a relatively low aggregate poverty rate among the working-age population. This relatively low risk of poverty among the whole population would, however, reflect strong labour market performance, rather than effective anti-poverty policies, such as a well-designed system of social transfers. Similarly, a country with an average labour market performance, but particularly effective anti-poverty policies, might also achieve a below-average aggregate poverty rate among working-age households. In this case, however, poverty rates for different types of households would tend to be below the OECD average, whereas the mix of household types might be close to the OECD average.
4. However, the same results hold when splitting the working-age population over the ten types of households for which data are available, as might be expected because most of the variability in poverty rates across household types is related to employment status.

5. This is a rough upper-bound estimate of the potential reduction of the overall in-work poverty rate, since it is based upon the assumption that the rates of in-work poverty observed for higher intensity of work would not change even if a large number of persons would increase their intensity of work.

6. In the longer run, the policy goal should be to strengthen the employability and the earnings potential of those workers experiencing recurrent spells of poverty, notably through vocational training and other education programmes. Although potentially crucial, this kind of career development policies falls beyond the scope of this chapter.

7. For instance, Holt (2006) reports that, in 2003, the EITC lifted 4.4 million people living in low-income, working families out of poverty in the United States, more than one-half of them being children. And this scheme lifts more children out of poverty than any other social program or category of programs. Without it, the poverty rate among children would be 25% higher (Greenstein, 2005). Another study found that from 1995 through 1999, the EITC reduced the overall poverty rate by 1.5 percentage points, even though only about one-third of poor households qualify for the credit (Hoffman and Seidman, 2003). Besides, the total poverty gap – the aggregate difference between poor families’ resources and the (official) poverty threshold – for families with children would have been 20% higher in 1999 without the EITC (Ziliak, 2004).

8. Indeed, if IWBs represent an additional transfer, i.e. if they are introduced without cutting back other benefits, then financing usually takes place by increasing tax burdens for higher-income groups.

9. Moreover, these figures give an upper-bound estimate of the share of working poor who would benefit from a minimum-wage increase or from the introduction of such a wage floor. While a minimum wage may put upward pressure on low wages above the minimum level, this diffusion effect is unlikely to affect all low-paid workers (Neumark et al., 2004).

10. Leigh (2003) suggests that a 10% increase in a state EITC was associated with a 4% drop in wages of high school dropouts and a 2% decline in wages for those with only a high school diploma. Another recent study concludes, however, that expansions to the EITC during the 1990s had little apparent effect on hourly wages near the bottom of the wage distribution (Eissa and Nichols, 2005).

Bibliography


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Jones, J. (2007), “Family of Four Needs to Earn Average of $52,000 to Get By”, Gallup News Service, www.gallup.com/poll/26467/Public%1eFamily%1eFour%1eNeeds%1eEarn%1eAverage%1e52000%1eGet.aspx.


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ANNEX 3.A1

Figures and Tables
3. IS WORK THE BEST ANTIDOTE TO POVERTY?

Figure 3.A1.1. Underemployment at the extensive margin and in-work poverty rates, mid-2000s

Panel A. Share of households where all adults have a job among the working poor population

<table>
<thead>
<tr>
<th></th>
<th>Two-earner couples</th>
<th>Single persons working</th>
</tr>
</thead>
<tbody>
<tr>
<td>Norway</td>
<td>60</td>
<td>30</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>50</td>
<td>40</td>
</tr>
<tr>
<td>Portugal</td>
<td>40</td>
<td>60</td>
</tr>
<tr>
<td>Austria</td>
<td>40</td>
<td>60</td>
</tr>
<tr>
<td>Australia</td>
<td>30</td>
<td>70</td>
</tr>
<tr>
<td>Spain, France</td>
<td>30</td>
<td>70</td>
</tr>
<tr>
<td>Italy, Greece</td>
<td>20</td>
<td>80</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>10</td>
<td>90</td>
</tr>
<tr>
<td>OECD</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Reading note: in Sweden, the aggregate in-work poverty rate would be 1.6 percentage points higher than that observed, if the poverty rates for both households with all members working and couples with one member working were the same in this country as those observed on average in the OECD area. Sweden would also exhibit a slightly higher (by 1 percentage point) aggregate rate of poverty, if this country had exactly the same share of households with all members working as that observed on average in the OECD area.

Source: OECD questionnaire on Income Distribution.

http://dx.doi.org/10.1787/707234112368

Panel B. Cross-country differences in in-work poverty rates and shares of one-earner couples in the working-age population

Percentage points change in the overall rate of in-work poverty that would occur if...

- ... the national poverty rate for households with all members working and the national poverty rate for one-earner couple were the same as the OECD average
- ... the national share of households where all adult members are working were the same as the OECD average
- Observed in-work poverty rate (right-hand scale)
Figure 3.A1.2. Sensitivity of in-work poverty rates to the work criteria retained to identify the working population, 2006

Among all individuals aged 20-64 living in households with at least one worker, share of individuals with less than 50% of the median disposable income. The calculation is done separately for different total time spent at work in the household (number of hours spent at work by head and spouse, when relevant).

Source: EU-SILC.

StatLink: http://dx.doi.org/10.1787/707306386158
Figure 3.A1.3. **By how much do social transfers reduce poverty?**

- Poverty rates before and after transfers are calculated on market-income and disposable income, respectively. In both cases, poverty rates are calculated as the percentage of individuals living in households with income below 50% of the median income: for all individuals living in all households with a head of working age (Panel A); for individuals living in households with at least one worker (Panel B); for individuals living in households with no workers (Panel C).

- **Source:** Calculations based on OECD (2008), *Growing Unequal?* http://dx.doi.org/10.1787/707958232264
Figure 3.A1.4. **Net incomes of households with a low earnings potential, 2006**

Individuals working in a low-paid job, earning 40% of the average wage on an hourly basis

Panel A. Single-adult households

- **% median income**
- **No children**
- **Two children**

Panel B. Two-adult households

- **% median income**
- **No children**
- **Two children**

Source: OECD tax-benefits models.
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Table 3.A1.1. Low-income thresholds used in the analysis
2005 values

<table>
<thead>
<tr>
<th>Currency unit</th>
<th>Single without children</th>
<th>Single with two children</th>
<th>Couple without children</th>
<th>Couple with two children</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia AUD</td>
<td>14 770</td>
<td>25 582</td>
<td>20 888</td>
<td>29 540</td>
</tr>
<tr>
<td>Austria EUR</td>
<td>9 964</td>
<td>17 258</td>
<td>14 091</td>
<td>19 927</td>
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Source: OECD questionnaire on Income Distribution.

StatLink: [http://dx.doi.org/10.1787/707405880053](http://dx.doi.org/10.1787/707405880053)